HARTMARX ANNUAL REPORT 1986

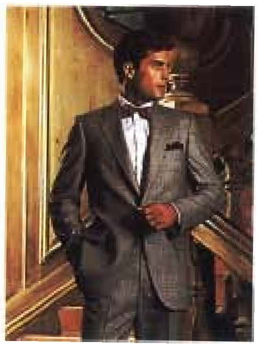
1887 HARTMARX CENTENNIAL 1987

A Tradition of Growth

In 1872, immediately after the great Chicago Fire, Harry and Max Hart took their savings of $2,700 and opened a men's clothing store on State Street. Hart Schaffner & Marx was formed in 1887 when Joseph Schaffner joined the partnership. The clothing industry was transformed forever. Only ten years later, Hart Schaffner & Marx pioneered the selling of branded clothing by running the first national advertisement for men's apparel. As advertising proved successful, the firm commissioned the best-known illustrators of the period to create artwork for its advertising posters and style books. Another first came in 1906, when the firm began to offer clothing made for men of different proportions. A leader in labor relations as well, the Company negotiated an agreement in 1911 that became an industry standard. In 1917, it was the first to develop tropical worsted suits. In 1926, returning to its retail roots, the Company purchased Wallachs. Over the years, through acquisitions and internal expansion, this total has grown to 440 stores. In 1954, Society Brand became the first manufacturing acquisition, followed by Hickey-Freeman in 1964, Jaymar-Ruby in 1967, and M. Wile in 1969. The 1960s also marked the introduction of many new brands, including Austin Reed of Regent Street, Jack Nicklaus, and Johnny Carson. In 1974, Christian Dior tailored clothing was launched, followed by Nino Cerruti, Allyn St. George, and Pierre Cardin. In the 1980s, the Company grew with the introduction of new tailored clothing brands, including Henry Grethel, Racquet Club and Jaeger, and through internal development of new lines and businesses in men's sportswear, women's clothing, direct marketing and career apparel. Acquisitions in the 1980s included Country Miss, Kuppenheimer, Briar Neckwear, Yorke Shirtmakers and H. Oritsky. Reflecting this diversification, while retaining a century of tradition with Hart Schaffner & Marx continuing as a subsidiary, the company became Hartmarx Corporation in 1983.

The Company Today

1887 HARTMARX® CENTENNIAL 1987 For one hundred years, first as Hart Schaffner & Marx and now as Hartmarx, the Company has been at the forefront of the apparel industry, building on its reputation for high quality, excellent value, up-to-date fashion and outstanding service to retailers and consumers. Starting the second century of growth, the future looks even brighter than the past, and offers exciting new opportunities to the 22,000 people employed by Hartmarx. **Men's Apparel Manufacturing:** Hart Schaffner & Marx, Hickey-Freeman, Intercontinental Branded Apparel, Jaymar-Ruby, Hartmarx Special Markets Group, Hartmarx Furnishings Group and H. Oritsky. These companies manufacture quality suits, sportcoats, slacks, outercoats, rainwear, sportswear, furnishings, career apparel for men and women, and military uniforms under a variety of brands and designers as well as personality labels. **Women's Apparel Manufacturing:** Country Miss manufactures women's moderate-to-better quality sportswear and suits. Jaymar-Ruby introduced a complete collection of Lady Sansabelt slacks, skirts, shorts, culottes and jeans. **Specialty Retailing:** Hartmarx Specialty Stores, Inc. operates 230 superior quality apparel specialty stores catering to business and professional men and women across the country under such well-known names as Wallachs, Baskin, Hastings, Jas. K. Wilson, Silverwoods and F.R. Tripler. **Low-Markup Retailing:** "America's Number One Value Clothier For Men," Kuppenheimer is a direct-to-consumer manufacturer-retailer of popular-priced suits, sportcoats and slacks which are sold through its own 110 retail stores. Country Miss operates 80 women's apparel outlets. **International:** Hartmarx holds a 49 percent interest in Robert's, a quality Mexico City manufacturer of men's clothing with 25 stores throughout Mexico. Hartmarx also licenses its apparel brands and retail names in 12 foreign countries and has a 14 percent voting interest in Austin Reed of Regent Street in Great Britain.



Hartmarx Corporation Financial Highlights

Years Ended November 30	1986	1985	Change
Net sales	$1,063,011,000	$1,109,537,000	(4.2%)
Net earnings	24,775,000	42,660,000	(41.9%)
Earnings per share	1.20	2.25	(46.7%)
Fully diluted earnings per share	1.20	2.10	(42.9%)
Cash dividends paid per share	.90⅓	.85⅓	5.9%
Equity per share at November 30	17.59	17.61	(.1%)
Average number of common shares and common share equivalents	20,603,000	18,928,000	

Quarterly Financial and Common Share Information

Quarters	Net Sales (000's omitted) 1986	1985	1984
First	$ 290,311	$ 288,800	$ 274,360
Second	245,446	265,242	247,745
Third	252,851	267,498	260,666
Fourth	274,403	287,997	288,059
Total	$1,063,011	$1,109,537	$1,070,830

Quarters	Net Earnings Per Share 1986	1985	1984
First	$ .40	$ .67	$ .63
Second	.11	.47	.45
Third	.18	.37	.43
Fourth	.51	.74	.73
Total	$1.20	$2.25	$2.24

Quarters	Gross Profit (000's omitted) 1986	1985	1984
First	$ 118,232	$ 118,452	$ 109,682
Second	105,535	114,870	105,915
Third	92,902	105,091	100,740
Fourth	118,306	129,878	128,184
Total	$ 434,975	$ 468,291	$ 444,521

Quarters	Fully Diluted Earnings Per Share 1986	1985	1984
First	$ .40	$ .62	$ .59
Second	.11	.44	.42
Third	.18	.36	.40
Fourth	.51	.68	.68
Total	$1.20	$2.10	$2.09

Quarters	Net Earnings (000's omitted) 1986	1985	1984
First	$ 8,310	$ 12,525	$ 11,745
Second	2,255	8,860	8,330
Third	3,705	7,190	7,955
Fourth	10,505	14,085	13,705
Total	$ 24,775	$ 42,660	$ 41,735

Quarters	Cash Dividends Per Share 1986	1985	1984
First	$.21⅓	$.21⅓	$.18⅔
Second	.23	.21⅓	.18⅔
Third	.23	.21⅓	.18⅔
Fourth	.23	.21⅓	.18⅔
Total	$.90⅓	$.85⅓	$.74⅔

Price Ranges of Common Shares

Hartmarx common shares are traded on the New York and Midwest Stock Exchanges.
The quarterly composite price range for the past three years was:

	Fiscal 1986				Fiscal 1985				Fiscal 1984			
	Fourth	Third	Second	First	Fourth	Third	Second	First	Fourth	Third	Second	First
High	$32	$31	$29⅚	$28⅔	$24 1/12	$26 1/12	$26¼	$22⅙	$20	$21¾	$19⅓	$22⅚
Low	24	26	23⅞	23¼	20 11/12	21⅔	20 5/12	17⅓	16 7/12	15⅚	15⅔	16¼

All outstanding shares and per share amounts have been restated for the 3-for-2 stock split in May, 1986.

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To our Shareholders

With completion of the retail restructuring and repositioning, and our organizational changes also determined, Hartmarx is now in an excellent position to take advantage of its fundamental strengths. We believe that your Company is fully prepared to start another sustained period of growth as we celebrate our centennial year 1987, and that the next hundred years will bring even greater opportunities than those enjoyed during the past century.

The Company's growth was interrupted in fiscal 1986 after ten consecutive years of higher sales and earnings. Sales in 1986 were $1.06 billion, or 4.2 percent lower than 1985's $1.11 billion, due to selling the Chas. A. Stevens retail subsidiary as of January 31, 1986; otherwise, sales would have increased slightly. The sales decrease in the Hartmarx Specialty Stores was largely attributable to disruption during the transfer of the accounting, credit, merchandising and distribution functions to centralized facilities and the restructuring of its management. Kuppenheimer's sales were also slightly lower due to store closings which were not entirely offset by increased sales in its repositioned stores. Manufacturing sales increased 2.6 percent with the Men's Apparel Group sales reaching record levels while women's apparel manufacturing sales to independents declined. Sales of Country Miss grew from opening additional stores which sold more of its production.

Left: John R. Meinert, Chairman and Chief Administrative Officer

Center: Harvey A. Weinberg, Vice Chairman and Chief Executive Officer

Right: Elbert O. Hand, President and Chief Operating Officer

Net earnings decreased $17,885,000 or 42 percent to $24,775,000 and $1.20 per share in 1986 from $42,660,000 and $2.10 per share for 1985, adjusted for a three-for-two stock split and conversion of subordinated debentures. The decline occurred in retailing from operating losses for Hartmarx Specialty Stores and Kuppenheimer. Men's Apparel Group earnings remained at record levels. Country Miss earnings were down a little as lower manufacturing profits were largely offset by more profits from additional retail stores.

Sales, gross margins, expenses and earnings for 1986 were adversely affected by the impact of programs to restructure Hartmarx Specialty Stores and reposition Kuppenheimer. Functions previously performed in about two dozen separate store groups are now centralized for the Hartmarx Specialty Stores. Kuppenheimer has been repositioned with a completely new store design and upgraded merchandising.

Disruption during the transition contributed to lower sales and higher markdowns in the Specialty Stores. Expenses were $8 million for severance pay and costs to relocate facilities and employees, but the resulting savings are alleviating increases occurring in other retail expenses. Gains from the sale of leases offset some of these costs.

Kuppenheimer's loss was largely due to substantial price reductions taken to dispose of old goods. Kuppenheimer has improved its tailored clothing with better fabrics and quality. About one-half of its locations have been changed to a new store format designed to increase sales, 22 stores were closed and the remainder are being evaluated for repositioning upon lease extension or relocation.

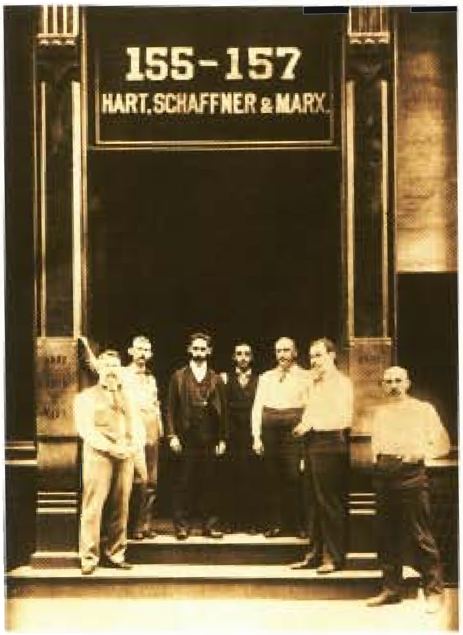
The centralization of the Specialty Stores and repositioning of Kuppenheimer should prove productive in 1987 and future years. The tasks took longer and the impact on sales and earnings was greater than expected to accomplish our objectives. Not everything went as smoothly as hoped, but planned

To our Shareholders

expenses were not exceeded and related gains from lease dispositions were realized. The centralized functions are now being performed on a timely and efficient basis, and Kuppenheimer's repositioned stores are showing sales increases.

All of our executives are dedicated to achieving success in the retailing segment. We fully recognize that our most important opportunity is to accomplish this through improved sales and gross margins. The immediate objective for the retailing operations is the recovery of earnings to their previous levels. However, those returns on retail net assets were only five or six percent. Therefore, our long term goal continues to be a 12 percent after-tax return, and the changes in retailing have been directed toward that objective.

Your Company's assets and equity are invested about equally in manufacturing and retailing. The manufacturing segment is expected to continue its strong performance in sales and earnings, reaching record levels in 1987. Orders for our quality merchandise are in high demand at both the retailer and consumer level. Operating earnings after taxes are averaging in the area of 20 percent on our manufacturing assets. After the retailing return reaches the 12 percent target, combined with the outstanding 20 percent return from manufacturing, Hartmarx can produce a return on shareholders' equity of over 15 percent.



This photograph was taken in 1888, at 155 South Market Street, Chicago, shortly after the firm Hart Schaffner & Marx was established. It shows some of the key people in the organization at that time. Reading left to right: E.T. Winship, salesman, Dave May, salesman, Joseph Schaffner; Henry Schneewind, salesman; Max Hart; Harry Hart; Sig Frank who was in charge of shipping.

Retailing earnings will make a substantial recovery in 1987, largely through improvements in gross margins and operating expenses. Sales for the first quarter of fiscal 1987 are affected by a decrease for Hartmarx Specialty Stores in December but January sales increased. As sales recover all the decrease which occurred in 1986, retail profits will also fully recover to their previous levels. If this can be accomplished this year, 1987 will be a record year.

The Men's Apparel Group took important steps in 1986 to further strengthen its position in the many different market segments that it serves in the suit, sportcoat, sportswear, furnishings and women's apparel categories.

Hartmarx markets many of the strongest brands in the industry. Constantly adapting to the changing consumer requirements has enabled our apparel to enhance its fashion leadership position. Hart Schaffner & Marx is celebrating its 100th Anniversary as America's best-known brand with the introduction of an updated collection of clothing for business executives. The "Right Suit" campaign in both print media and television is part of our continuing program to keep this famous name in front of the public. Hickey-Freeman, Sansabelt, Jack Nicklaus, Racquet Club, Christian Dior, Pierre Cardin, Austin Reed of Regent St., Johnny Carson and Nino Cerruti are among the well known brand, designer and personality names featured by America's leading retailers. Each of these brands is designed and advertised to meet the specific fashion needs and price levels appealing to a particular market segment. To round out its clothing presentation and take advantage of the continuing growth in traditional natural shoulder clothing, Hartmarx Corporation acquired H. Oritsky, Inc. in December, 1986.

The first of a number of planned extensions of our clothing brands into other apparel categories has been completed. The already successful Racquet Club contemporary traditional clothing concept was interpreted into collections of sportswear and furnishings and introduced to retailers under the same brand name. The acquisition of Yorke Shirtmakers in 1986, and Briar Neckwear in the previous year, has enhanced the ability of the Men's Apparel Group to expand this marketing technique to other Company brands.

Country Miss expanded its product offerings by adding petite collections to the Suburban and Weathervane coordinated sportswear divisions. It has also entered into a licensing agreement to market women's sportswear under the "Color Me Beautiful" label. Country Miss has set sales records annually since being acquired in 1981, and continues to be one of the most

profitable women's apparel manufacturers and marketers in the industry.

Hartmarx is expanding the international licensing of its brand names and now has 30 licensing agreements in 12 countries. Income from these programs in 1986 increased over 30 percent. A substantial portion of our licensing income is generated in Japan, where we have agreements with such prestigious companies as Marubeni Corporation, Asahi Chemical and Sanko Iryo. Hartmarx has a 49 percent interest in Robert's, the quality men's clothing manufacturer in Mexico, that operates 25 stores. We also have a close relationship and hold a 14 percent voting interest in Austin Reed of Regent Street in the United Kingdom. The licensing of this name to Hartmarx has been very successful in the United States.

Hartmarx is in excellent financial condition. At November 30, 1986, equity was $358.7 million compared to $332.4 million at the end of 1985. Debentures of $43.5 million were converted into equity in December 1985, while $25 million of Hartmarx stock purchased in March 1986 reduced equity. Strong cash flow has supported 10 dividend increases during the past 10 years, while retained earnings have also financed our growth. The Company has invested over $90 million in the past three years for fixed asset additions, including substantial amounts for technological improvements and computer systems. The Company is strongly capitalized with only $71 million long-term debt and will be able to grow through internal expansion. In addition, we are actively engaged in searching for acquisitions in the apparel field.

A state-of-the-art computer system drives the Hartmarx Specialty Stores 200,000 square foot centralized distribution center that was put into operation in 1986.

Our 100th Anniversary is being celebrated in 1987 by Hartmarx and Hart Schaffner & Marx with special programs involving both employees and retailers. A national employee essay contest, special local events, national advertising featuring the Centennial theme, and retail promotions with ads, windows, and posters are part of the Centennial Celebration to usher in our second century of growth. A dramatic 20 minute video presentation with George Plimpton as commentator will be available for public presentations. A booklet with many color illustrations tracing the Company's history will be distributed to employees, retailers and shareholders.

The board of directors expressed its appreciation to Chairman Emeritus Jerome S. Gore for serving as chairman during the period from October 27, 1986, when Richard P. Hamilton resigned, until the board meeting on January 15, 1987. The Office of the Chairman, established in October, is functioning well. The three executives, who have served Hartmarx for a total of over 75 years, have unique areas of expertise and are working together in partnership for the benefit of your Company. The success of Hartmarx rests upon people, and we are indeed fortunate to have great depth of experienced management and employees throughout our operations. The goodwill of our many customers is highly prized, and our business relationships with thousands of independent retailers are deeply appreciated. We thank our loyal employees for their valuable efforts in providing the best quality products and service to our customers.

February 13, 1987

John R. Meinert, Chairman and Chief Administrative Officer

Harvey A. Weinberg, Vice Chairman and Chief Executive Officer

Elbert O. Hand, President and Chief Operating Officer

The People and the Brands

*E*very company is the sum of its people, and Hartmarx is no exception. Pictured here are just a few of the men and women who are responsible for our success, each wearing one of our well-known brands.

1. Maxine Jones-Griffin, Service Center Inventory Controller
   Sterling & Hunt suit
2. Laura Mayer, Corporate Employee Relations Specialist
   Handmacher suit
3. Michelle Oswald, Corporate Legal Secretary, *Weathervane separates*
4. Alan Jasie, Assistant Merchandiser
   Pierre Cardin suit
5. Léonor Caravajal, Corrections Clerk
   Hart Schaffner & Marx Executive Series
6. Vince Lettieri, Director of Quality
   Society Brand, Ltd. sportcoat and slacks
7. Richard Delgado, Printer's Assistant
   Hart Schaffner & Marx suit
8. Barbara Gawronski, Accounting Secretary, *Lady Sansabelt slacks*
9. Max Williams, Piece Goods Testing Specialist
   Kuppenheimer suit
10. Henry Weber, Director of Merchandise Administration
    Sterling & Hunt suit
11. Cynthia Burman, Corporate Attorney
    Country Suburbans coordinates
12. Stanley Storti, Shipper
    U.S. Naval Academy Uniform by Thorngate

13. Tony Meglio, Director of Production
Jack Nicklaus blazer and slacks
14. Nat Alessandro, Pressing Supervisor
Johnny Carson sportcoat
15. Mark Hubble, Assistant Sponging Manager
Gleneagles Weatherwear
16. Scott Rutherford, Industrial Engineer
Allyn St. George suit
17. Betty Mak, Records Clerk
Gleneagles Weatherwear
18. Tim Schwartz, Industrial Engineer
Sansabelt sportswear
19. Greg Pohrebny, Floor Manager
Henry Grethel suit
20. Tim Krentz, Supervisor
Sansabelt suit
21. Tom Segelstrom, Advertising Production Manager
Racquet Club sportswear
22. Tony Alonzi, Director of Design
McDonalds blazer by Fashionaire
23. McKinley Jones, Utility Presser
Graham & Gunn, Ltd. sportcoat
24. Michael Mattia, Merchandising Administration Manager
Hickey-Freeman suit
25. Henri Briskintawi, Assistant Foreman, *Jaeger suit*
26. Bob Reed, Vice President Finance & Administration, M.A.G.
Yorke dress shirt, Briar neckwear
27. Ronnie Robinson, Director of Human Resources
Christian Dior suit
28. John DiGiovanni, Sales Representative, *Racquet Club suit*
29. Tony Marsala, Head Foreman
Walter-Morton suit
30. Thomas Palzer, Assistant Controller
Austin Reed of Regent Street suit
31. Michael Bechert, Sales Representative
Nino Cerruti Rue Royale suit

Marketing Concepts: Men's Apparel

The Hartmarx Men's Apparel Group generated record sales of approximately $530 million in 1986, of which 15% was shipped to our own men's specialty stores. Over the past seven years, sales for this group, which manufactures and markets 26 brands, have grown over 75%. Record sales and earnings for the Men's Apparel Group are expected in 1987.

The Group has taken advantage of the latest available technology to improve the efficiency in all areas of operations and become the world's leading manufacturer of quality tailored apparel. Strong marketing programs, such as the highly successful "Right Suit" campaign have established and maintained the highest consumer awareness for our brands.

The outlook for the Hart Schaffner & Marx brand is very positive. The "Executive Series," designed for the younger man and priced at a lower price point, was introduced in Fall 1986. Preliminary indications are very promising, and the scope of the line has been expanded considerably. It should generate brand loyalty to Hart Schaffner & Marx early in an executive's career. The "Executive Series" is representative of the aggressive posture of the company as Hart Schaffner & Marx completes its first century as the leading brand of fine tailored clothing for American men. Society Brand clothing continues its appeal to high-fashion customers.

Oil paintings commissioned for 1918-1919 style books and retail posters featured the most popular clothing fashions of the period as well as the officers' uniforms that Hart Schaffner & Marx was producing at that time.

Austin Reed of Regent Street remains the largest-selling brand of British traditional clothing manufactured and sold in the United States. The "Pub Crawlers" collection of younger looking suits and sportcoats for Fall 1987 features a more relaxed design that captures the spirit of British rugby colors.

The Jack Nicklaus collection of color coordinated blazers, sportcoats and slacks continues its dramatic sales growth. We are proud to have been associated with this legendary sports personality since 1968, when we launched our first apparel line featuring his name. We are continuing to develop new marketing concepts highlighting the many faceted activities of this remarkable American.

Sales of Henry Grethel tailored clothing continue to make significant strides. Spring 1987 sales for this line—the division's entry into lower priced, young men's tailored clothing—are up substantially over the previous season.

Christian Dior Monsieur's new Sportif collection features a more advanced look in suits and sportcoats, projecting quality with a more softly-structured and relaxed attitude of dress.

Gleneagles, which manufactures and markets weatherwear under its own name, as well as Hart Schaffner & Marx, Christian Dior Monsieur, Austin Reed and Henry Grethel, is now positioned to take full advantage of these well-known brands in its product category.

Hickey-Freeman is expanding its traditional lines to include a soft-shouldered suit designed to attract the younger, affluent customer. The Jaeger brand, which is also marketed by Hickey-Freeman at a lower price point, appeals to a young, fashion-conscious clothing purchaser.

Jaymar-Ruby, the well-known manufacturer of Sansabelt slacks, is now the creator of a full range of apparel. During the past decade, its sales have

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The 1987 fashion direction, this double-breasted suit by Hart Schaffner & Marx

Marketing Concepts: Men's Apparel

tripled and 1986 was the division's tenth consecutive record year.

The colorful new Sansabelt Golf Collection of coordinated slacks, shirts, shorts and jackets is expected to be their most successful sportswear program ever. Designed for casual wear, it provides the comfort and colorful design of golf clothing to the mainstream consumer.

The successful launch of the more traditional Racquet Club belt-loop slack program has resulted in the presentation of a total sportswear line for Fall 1987. The Racquet Club look is the inspiration for the sweaters and sport shirts that will complement the line of dress and casual slacks.

There are now 33 Sansabelt Shops; 20 of these are company-owned and 13 are operated by licensees. Jaymar-Ruby apparel is also marketed through 3,500 independent men's specialty stores.

The proper outfit for golf by Hart Schaffner & Marx, this poster created in 1924 for display in retail stores.

Intercontinental Branded Apparel, which produces high fashion, moderately priced tailored clothing, has improved its performance considerably with a successful strategy of emphasis on designer names. Its Nino Cerruti and Pierre Cardin labels are very strong as a result of their popular European influence. Racquet Club, with the contemporary traditional American look, sold largely through specialty stores, has also been an important growth factor. Johnny Carson, the most recognized celebrity label in the apparel business, is marketed through Sears and other popular-priced stores. In 1986, the merchandising strategy for the Allyn St. George line was revamped to cater primarily to the businessman looking for moderately priced clothing. Its "Businessman's Wardrobe" concept has been very favorably accepted by retailers.

The Hartmarx Furnishings Group was expanded this year by the acquisition of Yorke Shirtmakers which complements Briar Neckwear, acquired in 1985. In 1987, Briar and Yorke will be offering coordinated ties and shirts under the Cesarani and Racquet Club labels. These shirts and ties will complete the presentation of a complete men's apparel collection under the Racquet Club name, all modestly priced, featuring contemporary traditional styling for the younger customer.

The Hartmarx Special Markets Group achieved another record year. Fashionaire Apparel, Inc., the largest division in this group, markets and manufactures specially designed tailored career apparel programs for McDonald's and several major airlines, banks and realtors. During 1986, Fashionaire began delivery of a new uniform program for the Chicago Transit Authority—a substantial entry into the extensive municipal uniform market. Fashionaire also offers Careermarx in-stock tailored apparel that is of higher quality than generally available to users with smaller volume requirements. With the continued growth of Fashionaire, the division has now established a new warehouse and distribution center which furthers its efficiency in serving its customers. The Thorngate Uniforms division, the nation's largest supplier of airline uniforms, also manufactures uniforms for military academies and schools. The Group's Incentive Sales Division offers a wide range of men's and women's products for use as sales incentive and recognition awards.

In December 1986, Hartmarx Corporation acquired H. Oritsky, Inc., a leading manufacturer of fine men's natural shoulder suits and sportcoats. This acquisition will add an important merchandising and marketing dimension to the Men's Apparel Group.

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The Jack Nicklaus Collection of color coordinated blazers, sportcoats and slacks continues its dramatic growth. We have been privileged to be associated with Jack Nicklaus since 1968 when we launched our first apparel line bearing his name.

Marketing Concepts: Women's Apparel

Sales of women's apparel in 1986 exceeded $180 million or 17% of the corporation's consolidated sales. This includes Country Miss sales of over $100 million, while women's apparel in our specialty stores accounts for the balance. Country Miss, our major women's apparel manufacturing unit, reported record sales in 1986. Country Miss manufactures and markets coordinate skirts, slacks, sweaters, vests and jackets under the Country Suburbans and Weathervane labels. Country Suburbans is one of the nation's best selling lines of coordinated sportswear, well known for its excellent fashion presentation, consistence of quality and fit. Women's suits are sold under the Handmacher label which provides another distinguished brand offered by this company.

Two major 1986 introductions hold great potential. Country Miss introduced its Suburban Petite and Weathervane Petite lines targeted to women 5 ft. 4 in. and under. This apparel is not merely smaller, but rather clothing specifically designed for petite women in a full range of sizes from 4 to 18.

This elegant painting was created in 1920 to launch Hart Schaffner & Marx into the women's apparel field with a remarkable fashion coat collection.

Both lines are completely designed in fabric and fit to meet the special requirements of the petite woman. Also in 1986, Country Miss reached agreement with Carole Jackson, author of the best seller "Color Me Beautiful" to market a full line of sportswear under that name, aimed at the 35 million American women aware of color analysis. Through this concept women's colorings are divided into four seasons, for apparel, hair, eyes, complexion. Four corresponding color palletes serve as a basis for selection from fourteen colors. The line will include blouses, skirts, sweaters, and knit shirts and can be expanded into other apparel areas.

Country Miss has a well-balanced sales mix of wholesale and retail business. Its efficient domestic factory production is supplemented with imports. The 1986 product development for coordinated sportswear and related separates proved highly successful. About 40 percent of the production in 1986 was sold through its outlet stores. Sales in these stores increased, and during the year the number of locations expanded from 69 to 80 with 10 more planned for 1987.

In fiscal 1986, Jaymar-Ruby enhanced its marketing orientation with the introduction of Lady Sansabelt, its entry into the women's apparel field. This colorful selection of slacks, jeans, culottes, skirts and shorts is created from fine blended cotton and linens and features the famous Sansabelt waistband for superior comfort. An additional production facility was acquired to meet the anticipated demand for this offering. The line was tested during the year with very promising results. Shipments to retailers commenced in the third quarter and initial sales exceeded expectations. Considered Jaymar's most significant new product, the moderately priced Sansabelt collection will be sold through Sansabelt shops as well as 1,200 men's specialty retail stores that carry women's apparel.

The Direct Route catalogue, a marketing effort started in 1985, was changed in 1986 and is now exclusively directed toward executive women's apparel and accessories. Fall 1986 sales per catalogue were over 20 percent greater than the comparable previous year's mailing. In addition, the number of catalogues per mailing was increased to 1.5 million names. Direct Route is projected to operate profitably next year.

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Classic coordinates from the Country Suburbans Collection.

The People and the Stores


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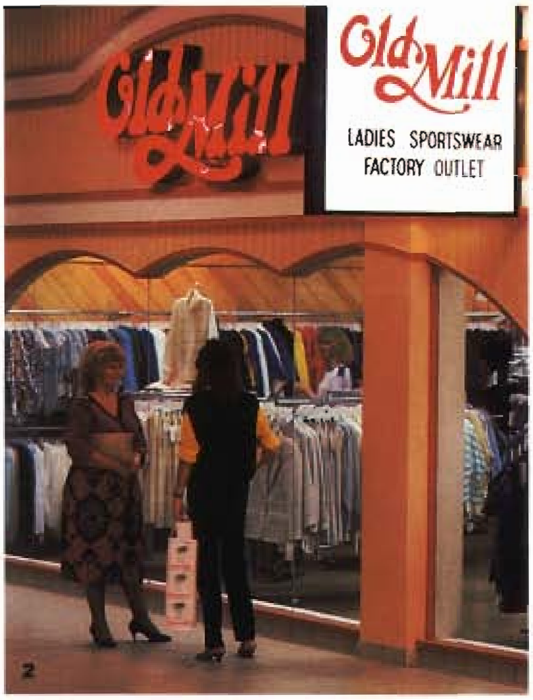

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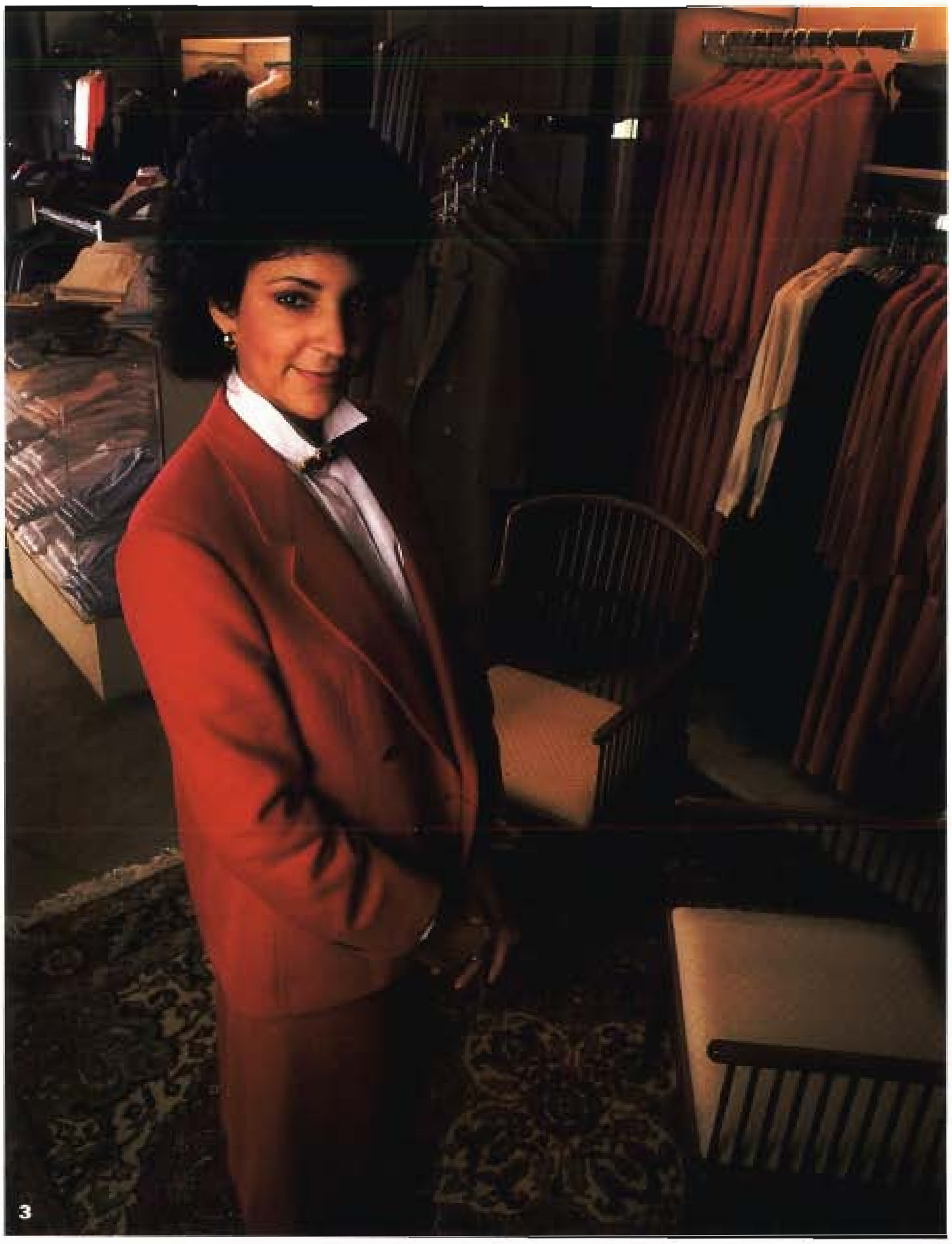
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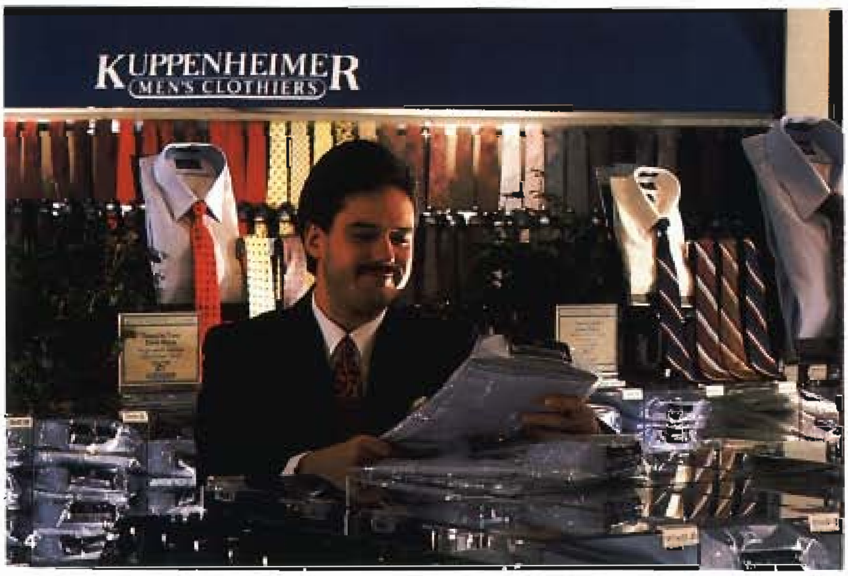
The success of a retail store is dependent as much on its people as on the merchandise it sells. Hartmarx attributes much of its leading status to its knowledgeable staff. Pictured here are just some of the men and women who serve our 440 stores with skill and dedication.

1. Linda Newman, Credit Center Collection Supervisor, in the recently updated *Jas. K. Wilson* store at Six Flags, Dallas, Texas.
2. The *Old Mill* factory outlet store, which was opened in Ft. Myers, Florida, in 1986.
3. Nancy Dillard, Sales Associate at *Barrie Pace, Ltd.*, the executive women's quality specialty store opened last fall in the Wall Street area.



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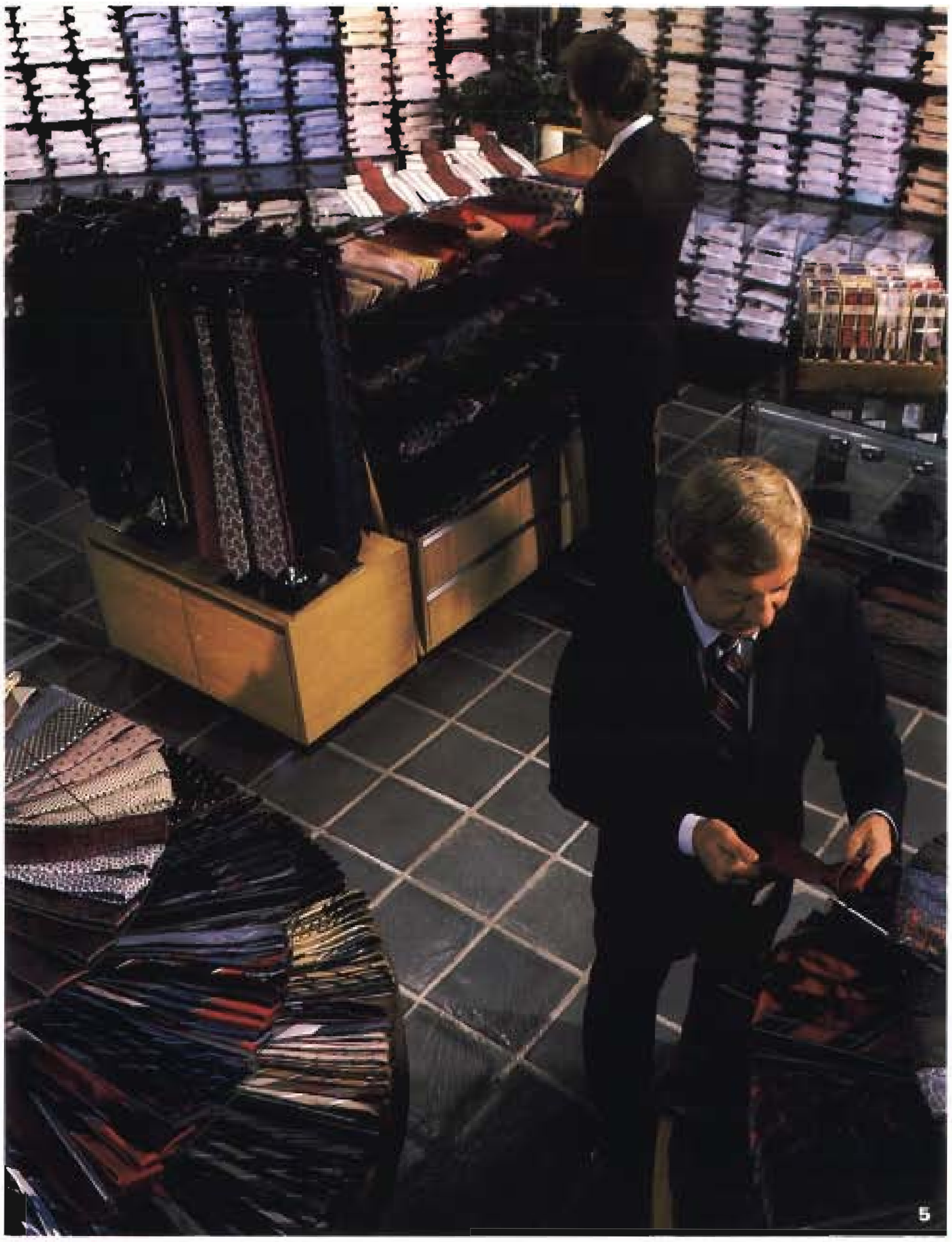

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4. Bill Wagner, Sales Associate, in the *Kuppenheimer* store, Market Square, Atlanta, Georgia which became part of the 110 store Kuppenheimer operation in 1986.
5. Dick Twite, Manager, and Larry Wentworth, Sales Associate, in the exciting new *Silverwoods* store, located in Montclair, California.
6. Jerry Stevenson, Clothing Manager, in the newly opened *Wallachs* store, located in Danbury, Connecticut.
7. Ralph Brady, District Manager of *Jaymar/Sansabelt Shop,* in North Park Center, Dallas, Texas.
8. Edith Buchholz, Sales Associate, in the *Corporate Woman* store, Houston, Texas which opened in 1986.

Marketing Concepts: Specialty Retailing

Hartmarx Specialty Stores, Inc. (HSSI) achieved sales of $415 million in 1986 at its 230 store units across the United States. These results were realized in a difficult economic environment, particularly in the energy-producing states. Most of the reduction in sales volume from $500 million in 1985 was due to the sale of the Chas. A. Stevens women's specialty stores.

This was an historic year for HSSI, as the division completed a comprehensive reorganization of its store groups as part of its business strategy to achieve lower operating costs while maximizing growth potential. As of July 1, 1986, HSSI has centralized key overhead functions such as accounting and credit in Dallas; distribution in Columbus, Ohio; and merchandising, buying and marketing in Chicago. From an operations point of view, stores are organized on a regional basis providing support to each unit through a more streamlined, efficient structure. Reductions-in-force were completed at all store groups as part of this centralization effort with the elimination of 450 staff positions throughout the company. As anticipated, the costs of this reorganization contributed to the 1986 loss in the retail segment. However, the cost will be recovered through lower operating expenses and elimination of duplicated efforts.

A keystone in completing the reorganization is a highly advanced management information systems function. This provides further competitive advantages through the utilization of state-of-the-art retailing and marketing technology.

HSSI begins the Centennial year with all new functions completely in place and normal start-up difficulties resolved. Sales and gross margins in the new fiscal year are expected to improve and together with a more efficient operating structure, will provide increased earnings for the specialty retail group. Additionally, the new national organization permits a more profitable integration of specialty store acquisition candidates into the company. Hartmarx continues to examine acquisition possibilities to achieve that strategic objective.

F.R. Tripler has retained its character as one of the finest menswear retailers in the world for over 101 years. It is still at the prestigious Madison Avenue location at which this photo was taken 36 years ago

Moreover, with the new organization, the division can begin to move toward a more national retail identity. Already, the advantages of a national marketing and advertising approach have been realized. Enhanced communication between the national buying office and resources should result in more effective merchandising decisions. The national buying and marketing functions will continue to maintain the customer identity of local store units. As further indication of this strategy, the division maintains a Graham & Gunn buying staff to meet the special needs of F.R. Tripler, Jack Henry, Capper & Capper, Littlers, Peer Gordon and Roots. In addition, as a substantial proportion of the retail group's clothing sales are products manufactured by the Hartmarx Men's Apparel Group, opportunities for improved communications between the national buying office and our manufacturing subsidiaries are significant.

During 1986, the company launched its new Barrie Pace Ltd. stores with spectacular openings in Manhattan and Boston. Potential locations for upcoming Barrie Pace Ltd. stores include Chicago and Washington, D.C. This effort is part of HSSI's marketing strategy to further expand the professional woman customer base. At the same time, the Corporate Woman's store in Dallas and the newly opened Houston store continue to be very successful.

In 1987, with consolidation completed, HSSI looks forward to realizing gains from its more efficient centralized organization, improved merchandise management, sharpened marketing-advertising programs, and increased store productivity.

Opposite Page

Cindy Six, Lead Supervisor Fashion Processing and Brian Hyme, Lead Supervisor Supplies, in the new Hartmarx Specialty Stores Distribution Center which was opened in 1986 in Columbus, Ohio

Marketing Concepts: Low-Markup Retailing

Sales for Kuppenheimer, our direct-to-consumer manufacturer and retailer of popularly-priced tailored clothing, were slightly lower in 1986 due to fewer stores, and results suffered from markdowns involved in disposing of older goods. The merchandise has been upgraded to the quality consistent with a distinctive new store design. Research showed that this repositioning was essential to differentiate our unique manufacturing and marketing concept from low-quality men's apparel discounters. Kuppenheimer selects the right fabrics and styling appealing to its own customers and produces the clothing to be sold in its own stores. With the repositioning completed, Kuppenheimer is returning to profitability in 1987.

The first action taken involved the physical improvement from the old pipe-rack look to an attractive and more comfortable shopping environment. During 1986, $3 million was invested in converting one-half of the 110 stores to the completely new format, which has made shopping more pleasant for Kuppenheimer customers. The stores with the new look have significantly increased their sales.

As far back as 1928, Kuppenheimer was a consistent national advertiser in leading publications. Today Kuppenheimer is a heavy user of television and radio to attract consumers to its unique concept.

Twenty-two stores that could not meet our profit standards were closed and others may be closed upon lease expirations. Additional stores will be repositioned upon consummation of lease renewals or relocations. New stores will be clustered in existing markets to take full advantage of advertising and other operating economies.

Kuppenheimer also has taken major steps in upgrading the design, quality and selection of all its merchandise and is delivering a greatly improved garment to its customers. Wool and wool blends are being featured exclusively in suits and sportcoats. A better selection of shirts, ties, sportswear and accessories has been developed to complement the tailored clothing.

Kuppenheimer suits sell in the $145 to $185 price range. These prices are aimed at the core customer in the 25 to 45 year age group and appeal to the large popular-priced market. The Kuppenheimer "Premier Edition" clothing collection, retailing at $219, will be market tested this year.

A new marketing and advertising strategy has been devised to get the message of the "New Kuppenheimer" to potential customers. This took the form of creating a substantial television and print media campaign featuring the very credible "Mr. Kuppenheimer" with his down-to-earth explanation to the consumer of the many advantages of the Kuppenheimer apparel and value concept. Responses indicate that this continuing campaign is a success.

We are encouraged with the progress that Kuppenheimer has made in upgrading its operations and broadening the appeal of its merchandise presentation.

Country Miss uses a similar marketing approach for the 80 Old Mill women's apparel outlet stores it now operates. Sales for comparable stores were higher in 1986, and with the addition of 11 new locations, Country Miss retail stores increased over 20%.

The stores feature a wide range of value-priced apparel, 85% of which is created and produced by Country Miss. The merchandise sold in these stores represents about one-half of the Country Miss business. Carefully targeted advertising programs, thorough employee training and the presentation of quality merchandise continue to produce sales records. About 10 new stores are planned in 1987.

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Dramatic exterior of a new Kuppenheimer store opened in Atlanta in 1986.


KUPPENHEIMER
MEN'S CLOTHIERS

Marketing Concepts: International

Hartmarx has 30 licensing agreements in 12 countries on five continents. Income generated from licensing our brand names and store names to foreign corporations rose over 30% in 1986.

Hartmarx has international licensing agreements for both manufacturing and retailing operations. In a manufacturing agreement, Hartmarx provides manufacturing, marketing and merchandising support in return for a minimum annual guarantee against royalties. For retailing agreements, our retailing, merchandising and marketing expertise is exchanged for a minimum guarantee and royalties. We have successfully developed mutually beneficial long-term relationships with our licensees, resulting in a substantial percentage of the agreements being renewed beyond the original terms.

During 1986, three major new agreements were completed during the year. One of these, Hallenstein Bros., New Zealand, under a retail license, will market a Baskin line of apparel in its 63-store group.

Through a licensing agreement with Marubeni Corporation, Japan's fourth-largest trading company, Futata, the leading specialty store chain on Kyushu Island, Japan, will market the Sterling & Hunt menswear collection of men's tailored clothing, sportswear and furnishings in its 17 stores. Sterling & Hunt "corners," averaging 500-sq. ft., will be developed within the stores to highlight the apparel. The Sterling & Hunt collection will be manufactured by Panther, one of Japan's leading clothing firms.

Also in Japan, four Root's in-store shops opened in Daimaru Department Stores—a major upscale group in that country. Daimaru joined with Sanko Iryo, one of that nation's leading manufacturers of high quality men's clothing to form Root's/Japan. The in-store shops—soon to be expanded to five—feature Root's architectural styling, ambiance and distinctive logo. The merchandise selection includes soft-shouldered, all-natural fiber suits which have become very popular among Japan's business and political leaders.

To maximize the shops' success, Root's/Japan store and merchandise managers were given extensive training at Hartmarx facilities in the United States.

Point of sale clothing display card created by Taka-Q, our Society Brand licensee in Japan.

Daimaru and other department stores also feature Hickey-Freeman corners aimed at the high income Japanese customers who demand the very finest tailored clothing. Hartmarx also maintains a number of retailing and manufacturing licenses with Taka-Q, Japan's largest men's specialty store chain.

In 1987, manufacturing licensing agreements in Chile, Korea and Taiwan are planned. The second biennial conference of Hartmarx international licensees will be conducted this summer in conjunction with our Centennial Celebration. Long-range opportunities include agreements for women's apparel and the Barrie Pace, Ltd. concept.

Robert's, the high-quality Mexican clothing manufacturer that operates 25 men's specialty stores, has made significant product quality enhancements and experienced improved manufacturing and retail sales during 1986. Hartmarx has a 49% equity interest in Robert's, as well as a 14% voting interest in Austin Reed of Regent Street, based in the United Kingdom. The Hartmarx Men's Apparel Group is looking at further opportunities to expand its international activities beyond licensing.

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A "Roots Corner" inaugurated in 1986 at Daimaru, one of Japan's finest department stores

ROOTS

Civic and Community Contributions

Hartmarx recognizes the obligation to serve society and improve the quality of life, particularly in communities where the Company operates and employees live. The Company is a leader in supporting worthwhile causes and also encourages its employees to contribute and participate.

From its inception in 1887, the Company helped to provide important entry level positions for immigrants. Today, as an equal opportunity employer, Hartmarx upholds this American ideal by providing employment for thousands of minority employees and refugees seeking better lives. The Company initiated literacy and training programs to help such workers become productive members of society and has been in the forefront of improving conditions in the apparel industry. Joseph Schaffner was nationally recognized as a pioneer in this endeavor.

Employees of Hart Schaffner & Marx gathered outside one of the tailor shops in 1914 to celebrate Flag Day.

In its early years, a national essay contest was conducted by the Company on the subject of economics, which awarded educational funds for deserving young students. This was the beginning of a continuous support of educational programs by Hartmarx at many different levels.

Substantial financial support to a large number of deserving universities continues to be of paramount importance. Matching grants of employee donations to educational institutions are an integral part of this effort. A recent $75,000 grant to the Philadelphia College of Textiles & Science is representative of contributions to institutions that specialize in research beneficial to our industry.

The Hartmarx Charitable Foundation, organized in 1967, contributed to a large number of educational, social welfare, civic and cultural institutions in 1986. In addition, Hartmarx employees have volunteered many hours of their own time to help such groups with many different tasks. Individual divisions and departments are encouraged to "adopt" worthwhile local not-for-profit groups with monetary contributions and personal involvement. Employee involvement is impressive. Hartmarx Marketing Services was honored in 1986 for their graphic and financial support of the Chinese American Service League in Chicago. Our artists and writers were responsible for creating and financing brochures in both Chinese and English which made the community aware of the League's services. In Cape Girardeau, Missouri more than 200 of our employees participate in the March of Dimes Walk-a-thon each year.

Examples of this kind of unique help are numerous. Many apparel items are contributed by Country Miss to charities each year. Briar Neckwear supports El Pueblo, a state park in Los Angeles that serves as a memorial to the multi-ethnic history and traditions of California. Klopfensteins, our Seattle retail subsidiary, helps the Seattle Repertory Theatre by sponsoring an annual dinner that launches its fund raising drive and awarding a one-year scholarship to the University of Washington's School of Fine Arts. Thorngate Uniforms in Norristown, Pennsylvania provides bus transportation every summer for handicapped children and veterans' outings.

Each year, Hartmarx honors the division which has provided the most outstanding community service, with the coveted Golden Needle Award. The 1986 winner was Jaymar-Ruby which spearheads a large number of community activities at its various locations. These ranged from participating in Junior Achievement programs to sponsoring blood drives and awarding scholarships. We are proud of the dedication, commitment and sense of responsibility shared by the people and the companies that comprise Hartmarx Corporation.

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Hartmarx employees reflect their corporation's concern for the community.


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Hartmarx Retail Stores Density by State

State	Hartmarx Specialty Stores		Kuppenheimer Stores	Old Mill Stores	Sansabelt Stores	State Total
Alabama	Zachry	1	2	2		5
Alaska	Klopfensteins	1				1
Arizona	Hanny's	5	3	4		12
Arkansas			1			1
California	Silverwoods Hastings	19 11	7		4	41
Colorado			3	1		4
Connecticut	Wallachs	3		1		4
Washington, D.C.			1			1
Florida	Wallachs of Florida Wolf Brothers Levy Wolf	6 7 2	6	8		29
Georgia	Zachry	10	8	4		22
Illinois	Baskin Capper & Capper	16 4			6	26
Indiana	deJong's	3	2	2		7
Kansas	Ray Beers	2	1			3
Kentucky			1	2		3
Louisiana	Porter-Stevens	5	4	1		10
Maryland			9	1		10
Massachusetts	Barrie Pace Roots Wallachs	1 1 4		1		7
Michigan	Capper & Capper	1	7			8
Minnesota	Liemandt's	6	4			10
Mississippi	Steven's	2				2
Missouri	Jack Henry	5	6	2		13
Nevada	Silverwoods	2				2
New Hampshire	Wallachs	1		1		2
New Jersey	Field Bros. Wallachs Roots	3 9 5		6		23
New York	F. R. Tripler Barrie Pace Wallachs Kleinhans Field Bros	1 1 10 5 4	1	9		31
New Mexico			1	1		2
North Carolina	J. O. Jones Zachry	2 1	4	1		8
North Dakota				1		1
Ohio	Peer Gordon Walkers	4 9	9	4		26
Oklahoma			3			3
Oregon	Klopfensteins	5	3			8
Pennsylvania			5	7		12
Rhode Island	Wallachs	1				1
South Carolina	Hayward Mahon	2	3	3		8
Tennessee			2	10		12
Texas	Jas. K. Wilson Leopold, Price & Rolle Merritt, Schaeffer & Brown Frank Brothers	13 15 3 2		1	10	44
Utah	Arthur Frank	3	1			4
Vermont				1		1
Virginia	Shulmans	3	5	5		13
Washington	Klopfensteins Littlers	8 2	5			15
Wisconsin	Baskin	1	3	1		5
Totals		230	110	80	20	440

Hartmarx Men's and Women's Subsidiaries and Brands

Men's Apparel

Hart Schaffner & Marx Clothes

Hart Schaffner & Marx
Austin Reed of Regent Street
Graham & Gunn, Ltd
Jack Nicklaus
Christian Dior
Henry Grethel
Society Brand, Ltd
Sterling & Hunt
Gleneagles
Hart Schaffner & Marx Weatherwear
Austin Reed of Regent Street Weatherwear
Christian Dior Weatherwear
Henry Grethel Weatherwear

Hickey-Freeman

Hickey-Freeman
Jaeger
Walter-Morton

Jaymar-Ruby

Jaymar
Jaymar Sport
Sansabelt
Sansabelt Golf
Sansabelt Sport
Jaymar/Sansabelt The Slack Shop
Pierre Cardin
Racquet Club
Racquet Club Sportswear

H. Oritsky

Briar

Briar Neckwear
Racquet Club Neckwear
Cesarani Neckwear

Intercontinental Branded Apparel

Pierre Cardin
Johnny Carson
Nino Cerruti Rue Royale
Allyn St. George
Racquet Club

Yorke Shirtmakers

Yorke
Nicola Mancini
Racquet Club
Cesarani

Hartmarx Special Markets Group

Fashionaire
Thorngate Uniforms
Careermarx
Hartmarx Incentive Sales

Major Hartmarx Men's Suit Brands, by Retail Price and Style

This chart highlights the focus of each brand

Retail Price	Contemporary	Traditional	Forward Fashion
$575+	Hickey-Freeman Walter-Morton	Hickey-Freeman Walter-Morton	
$425-$500			Jaeger
$375-$475	Hart Schaffner & Marx	Graham & Gunn Ltd.	Society Brand, Ltd. Christian Dior Le Connoisseur
$260-$375		Austin Reed of Regent Street	Christian Dior Monsieur Pierre Cardin
$225-$295		Racquet Club H. Oritsky	Nino Cerruti Rue Royale Henry Grethel
$185-$300	Sansabelt Suit		
$180-$260	Allyn St. George		
$150-$240	Johnny Carson		
$145-$185	Kuppenheimer		

Women's Apparel

Country Miss

Country Suburbans
Suburban Petites
Handmacher
Weathervane
Weathervane Petites
Color Me Beautiful

Hartmarx Special Markets Group

Fashionaire
Sterling & Hunt
Thorngate Uniforms
Careermarx
Hartmarx Incentive Sales

Jaymar-Ruby

Lady Sansabelt

Direct Route

International

Licensing Programs in 12 Countries

Australia
Canada
Colombia
Finland
Hong Kong
Japan
Korea
Mexico
New Zealand
Taiwan
Thailand
United Kingdom

Management's Discussion and Analysis

Consolidated sales decreased from $1.11 billion to $1.06 billion in 1986, but would have increased slightly if the Chas. A. Stevens women's apparel retail subsidiary, sold for approximately book value as of January 31, 1986, is excluded from both years. Lower retail sales in 1986 offset a manufacturing sales increase of 2.6 percent; in 1985, each segment and consolidated sales increased 3.6 percent over 1984.

Consolidated earnings before taxes were $47.5 million in 1986 compared to $81.3 million in 1985 and $80.3 million in 1984. The operating segment information presented as part of the financial statements shows manufacturing earnings of $73.4 million in 1986 compared to $77.2 million in 1985 and $73.1 million in 1984. Men's manufacturing earnings for 1986 were at record levels while earnings declined in women's manufacturing. The 1986 loss of $2.8 million shown for the retailing segment, compared to earnings of $28 million in 1985 and $35.3 million in 1984, is attributable to losses from both Hartmarx Specialty Stores and Kuppenheimer, partially offset by earnings of the Country Miss stores.

Sales, gross margins, expenses and earnings for 1986 were adversely affected by the impact of programs, commenced during 1985 and completed in 1986, to restructure Hartmarx Specialty Stores and reposition Kuppenheimer. Accounting, credit, merchandising and distribution functions, previously performed in about two dozen separate store groups, are now centralized for the Hartmarx Specialty Stores. Kuppenheimer, which continues to be operated centrally from Atlanta, has been repositioned, with a completely new store design and upgraded merchandising.

Disruption during the transition contributed to lower sales in the Specialty Stores, and higher markdowns and shortages were also experienced. Expenses were incurred for $8 million of severance pay and costs to relocate facilities and employees, but the net reduction of about 450 employees is alleviating increases occurring in other retail expenses. Gains from the sale of retail properties and valuable leases more than offset lease terminations and store closing costs for the Specialty Stores and Kuppenheimer.

The national accounting and credit office in Dallas is operating efficiently so that customers of Hartmarx Specialty Stores can now use the credit cards issued by the various stores interchangeably. The automated 200,000 square-foot national distribution center established in Columbus is receiving, marking and distributing goods from resources directly to the stores, which should improve inventory turnover. The merchandising and buying staffs moved to Chicago headquarters and are now using new computer systems and communication networks to provide the sales and merchandising information needed to purchase goods and control inventories. The regional offices are also using these systems and networks to operate and manage the stores and inventories. The most important opportunity to be gained from the centralization will be the advantage of better merchandise selection and improved sales and gross margins. The local store management, with well-trained sales and fitting staffs, can now focus on providing superior service to customers.

Kuppenheimer's 1986 operating loss was largely due to substantial price reductions taken to dispose of old goods. Kuppenheimer has improved its tailored clothing with better fabrics and quality. About one-half of its locations have been changed to a new store format designed to increase sales, 22 stores were closed and the remainder are being evaluated for repositioning upon lease extension or relocation.

Consolidated gross margins decreased in 1986 to 40.9 percent from 42.2 percent in 1985 and 41.5 percent in 1984. The 1986 decrease was caused by the higher retail markdowns. Manufacturing gross margins, while absorbing higher LIFO inventory provisions and costs associated with new engineering programs, remained strong.

Operating expenses increased in 1986 to 36.8 percent of sales from 35.2 percent in 1985 and 34.4 percent in 1984. Expenses for the Specialty Stores and Kuppenheimer increased, largely associated with centralization and repositioning, while retail sales were lower. The manufacturing segment incurred additional marketing and administrative costs associated with expanding product lines. Statement of Financial Accounting Standards No. 87 provisions for pension accounting were adopted in 1986. Amortization of the initial excess of the principal plan assets over projected benefit obligations reduced operating expenses $3 million, based on a 10-year period corresponding to the average years of expected future service of plan participants, and a curtailment upon the sale of Chas. A. Stevens reduced expenses an additional $760,000 for 1986.

Finance charges and other income, which is largely service charges on receivables and income from licensees, declined in 1986 to $12.1 million from $14.3 million in 1985 and $14.6 million in 1984. The decline reflects the sale of Chas. A. Stevens, which received substantial service charges. Interest expense, net of income, decreased $2.3 million to $8.1 million in 1986 from $10.4 million in 1985 and $10.7 million in 1984. The conversion of the 8½% subordinated debentures as of December 27, 1985 into 2.2 million shares (adjusted for the 3-for-2 stock split) increased equity and decreased debt by $43.5 million. Hartmarx purchased 872,400 of its shares in March 1986 at the then current $28.50 market value, or approximately $25 million cash, which decreased equity about $25 million. Stockholders' equity increased $26 million during 1986 to $358.7 million or $17.59 per share.

Management's Discussion and Analysis

The effective tax rate in 1986 was 47.9 percent compared to 47.5 percent in 1985 and 48 percent in 1984. The rate was lowered by investment tax credits in 1985 and was affected by capital gains on property dispositions in 1986. The 1986 Tax Reform Act enhances reported earnings through lower rates despite eliminating investment tax credits. However, favorable deferrals of tax payments, such as those related to installment receivables, are being phased out over a four-year period, while other costs usually expensed for financial purposes such as those pertaining to inventory, must be capitalized for tax purposes. Significant tax expense reductions will be shown due to the lower rates, but actual taxes paid will not be proportionately reduced so the timing differences in these payments will reduce the deferred tax liability.

Cash flow from earnings plus depreciation and amortization decreased in 1986 to $46 million compared to $62 million in 1985 and $59 million in 1984, due to lower earnings. This cash flow enabled the Company to invest over $90 million in capital assets over a three-year period and raise dividends while maintaining a low debt ratio. At November 30, 1986, long-term debt of $71 million represents only 16.5 percent of the total $430 million capitalization. Manufacturing fixed asset additions in 1986 were mostly for new equipment and technological improvements plus some plant expansions. Retailing expenditures, in addition to the Columbus distribution facility and Dallas office, included substantial amounts for new and remodeled stores at Kuppenheimer, Specialty Stores and Country Miss during 1986.

The decrease in accounts receivable and the related reserve reflects the sale of Chas. A. Stevens. Higher fourth-quarter manufacturing shipments included in receivables at November 30, 1986, were offset by lower charge sales in the Specialty Stores. Retail collections, which slowed earlier in 1986 during the transfer from individual stores to the Dallas office, have returned to normal levels and the aging is improving.

Inventories decreased $12.8 million to $298.1 million, attributable largely to the sale of Chas. A. Stevens. Retail inventories also declined reflecting Kuppenheimer's inventory dispositions and store closings, partially offset by more Country Miss stores. Manufacturing inventories were somewhat higher due to expanded product lines and acquisitions.

Inflation in the apparel industry has not been significant during the past several years and has been lower than the general inflation rate. In fiscal 1986, when the overall Consumer Price Index increased about 2 percent, the inflation rate was 1.3 percent for men's apparel and flat for women's apparel. While the impact of inflation is not significant to Hartmarx, earnings would be lower than reported on an historical basis if higher depreciation expense is assumed without a corresponding reduction in taxes. The current value of net assets would be higher than the Company's $358.7 million book value after reflecting the Company's use of the LIFO inventory method and substantial increases in the value of properties over the past five years.

Selected Financial Data

In Thousands/For Years Ended November 30	1986	1985	1984	1983	1982
Net sales	**$1,063,011**	$1,109,537	$1,070,830	$961,846	$863,231
Net earnings	**24,775**	42,660	41,735	37,615	31,870
Net earnings per common share and equivalent	**1.20**	2.25	2.24	2.03	1.68
Fully diluted earnings per share	**1.20**	2.10	2.09	1.91	1.68
Cash dividends per share	**$.90\frac{1}{3}$**	$.85\frac{1}{3}$	$.74\frac{2}{3}$	$.60\frac{7}{9}$	$.53\frac{7}{9}$
Average number of common shares and equivalents	**20,603**	18,928	18,614	18,485	19,022
In Thousands/At November 30					
Accounts receivable	**$ 175,031**	$ 188,583	$ 169,612	$165,521	$158,011
Inventories	**298,117**	310,944	306,140	256,129	208,105
Net properties	**129,219**	129,694	115,948	100,415	86,305
Total assets	**621,533**	669,259	613,536	542,844	480,793
Working capital	**290,954**	308,101	286,488	260,735	237,210
Long term debt	**70,860**	114,745	110,576	100,562	89,462
Shareholders' equity	**358,718**	332,412	301,891	271,703	242,490
Equity per share	**17.59**	17.61	16.24	14.80	13.46

All outstanding shares and per share amounts have been restated for the 3-for-2 stock split in May, 1986 and the 3-for-2 exchange in April, 1983.

Hartmarx Corporation Consolidated Statement of Earnings

In Thousands/Years ended November 30	1986	1985	1984
Net sales	$1,063,011	$1,109,537	$1,070,830
Finance charges and other income	12,095	14,273	14,553
Interest income	1,279	1,589	1,619
Equity in earnings of non-consolidated affiliate	242	190	812
	1,076,627	1,125,589	1,087,814
Cost of goods sold	628,036	641,246	626,309
Selling, administrative and occupancy expenses	391,652	391,079	368,899
Interest	9,414	12,014	12,311
	1,029,102	1,044,339	1,007,519
Earnings before taxes	47,525	81,250	80,295
Taxes on earnings	22,750	38,590	38,560
Net earnings for the year	$ 24,775	$ 42,660	$ 41,735
Earnings per common share and common share equivalent	$ 1.20	$ 2.25	$ 2.24
Fully diluted earnings per share	$ 1.20	$ 2.10	$ 2.09

(See accompanying notes to consolidated financial statements)

Report of Independent Accountants

To the Shareholders and Board of Directors of Hartmarx Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, of shareholders' equity and of changes in financial position present fairly the financial position of Hartmarx Corporation and its subsidiaries at November 30, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended November 30, 1986, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Chicago, Illinois
January 14, 1987

Price Waterhouse

Hartmarx Corporation
Consolidated Balance Sheet

In Thousands/November 30		1986	1985
Assets			
Current Assets	Cash	$ 2,840	$ 13,969
	Short term investments, at cost which approximates market	1,063	8,277
	Accounts receivable, less allowance of $9,042 and $9,810 for doubtful accounts	175,031	188,583
	Inventories	298,117	310,944
	Prepaid expenses	5,858	8,430
	Total current assets	482,909	530,203
Investments and Other Assets		9,405	9,362
Properties	Land	3,502	5,229
	Buildings and building equipment	51,496	49,709
	Furniture, fixtures and equipment	145,587	141,705
	Leasehold improvements	74,043	82,440
		274,628	279,083
	Accumulated depreciation and amortization	(145,409)	(149,389)
	Net properties	129,219	129,694
Total Assets		$621,533	$669,259

Liabilities and Shareholders' Equity			
Current Liabilities	Notes payable to banks	$ 33,000	$ 38,600
	Current maturities of long term debt	6,056	11,216
	Accounts payable	61,528	67,785
	Accrued payrolls	32,792	33,713
	Other accrued expenses	26,487	36,678
	Taxes on earnings	10,649	12,032
	Deferred taxes on earnings	21,443	22,078
	Total current liabilities	191,955	222,102
Senior Long Term Debt, less current maturities		70,860	71,200
8½% Convertible Subordinated Debentures		—	43,545
Shareholders' Equity	Preferred shares, $1 par value; 2,500,000 authorized and unissued	—	—
	Common shares, $2.50 par value; authorized 75,000,000; issued 23,340,570 in 1986 and 20,955,249 in 1985	58,351	34,925
	Capital surplus	41,711	20,164
	Retained earnings	312,369	306,159
	Foreign currency translation adjustment	(5,876)	(5,876)
		406,555	355,372
	Common shares in treasury, at cost, 2,944,357 in 1986 and 2,072,247 in 1985	(47,837)	(22,960)
	Shareholders' equity	358,718	332,412
Total Liabilities and Shareholders' Equity		$621,533	$669,259

(See accompanying notes to consolidated financial statements)

Hartmarx Corporation Consolidated Statement of Shareholders' Equity

In Thousands	Par Value of Preferred Stock	Par Value of Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Shares
Balance at November 30, 1983	$—	$34,478	$15,916	$251,599	$(5,876)	$(24,414)
Net earnings for the year				41,735		
Cash dividends:						
Common shares, $.74⅔ per share				(13,791)		
Stock options exercised (88,254 shares issued upon exercise of 96,093 options)		147	482			
Disposition of 144,216 treasury shares			797			818
Balance at November 30, 1984	—	34,625	17,195	279,543	(5,876)	(23,596)
Net earnings for the year				42,660		
Cash dividends:						
Common shares, $.85⅓ per share				(16,044)		
Stock options exercised (157,656 shares issued upon exercise of 212,106 options and stock appreciation rights)		262	1,198			
Disposition of 112,193 treasury shares			1,364			636
Conversion of $445,000 face value of debentures into 22,748 common shares		38	407			
Balance at November 30, 1985	—	34,925	20,164	306,159	(5,876)	(22,960)
Net earnings for the year				24,775		
Cash dividends:						
Common shares, $.90⅓ per share				(18,565)		
Effect of 3-for-2 stock split		19,405	(19,405)			
Stock options exercised (162,888 shares issued upon exercise of 211,200 options)		316	1,602			
Other treasury stock transactions			12			4
Conversion of $43,464,000 face value of debentures into 2,222,433 common shares		3,705	39,338			(18)
Purchase of 872,400 treasury shares						(24,863)
Balance at November 30, 1986	$—	$58,351	$41,711	$312,369	$(5,876)	$(47,837)

(See accompanying notes to consolidated financial statements)

Hartmarx Corporation Consolidated Statement of Changes in Financial Position

In Thousands/Years ended November 30		1986	1985	1984
Funds Were Provided by:	Net earnings for the year	$ 24,775	$42,660	$41,735
	Depreciation and amortization	21,048	19,625	17,069
	Equity in earnings of non-consolidated affiliate	(242)	(190)	(812)
	Working capital provided by operations	45,581	62,095	57,992
	Common stock issued upon conversion of 8½% subordinated debentures—net	43,025	445	–
	Proceeds from issuance of long term debt	6,362	17,000	16,967
	Properties and other assets of subsidiary that was sold	7,349	–	–
	Decrease in investments and other assets	5	1,408	1,896
	Net proceeds from exercise of stock options	1,918	1,460	629
		104,240	82,408	77,484
Funds Were Used for:	Property additions—net	27,058	33,191	32,602
	Payment of dividends	18,565	16,044	13,791
	Reduction of long term debt	6,941	12,427	6,953
	Purchase of treasury stock	24,863	–	–
	Other changes in treasury stock—net	(16)	(2,000)	(1,615)
	Conversion of 8½% subordinated debentures into common stock	43,545	445	–
	Properties and other assets of acquired company, net of obligations assumed	431	688	–
		121,387	60,795	51,731
	Increase (Decrease) in Working Capital	$(17,147)	$21,613	$25,753
Changes in Components of Working Capital:	Cash	$(11,129)	$11,580	$ (1,200)
	Short term investments	(7,214)	3,916	2,270
	Accounts receivable	(13,552)	18,971	4,091
	Inventories	(12,827)	4,804	50,011
	Prepaid expenses	(2,572)	3,375	1,071
	Notes payable to banks	5,600	(5,600)	(25,000)
	Current maturities of long term debt	5,160	(4,574)	(1,692)
	Accounts payable	6,257	960	2,007
	Accrued payrolls	921	(1,147)	(1,228)
	Other accrued expenses	10,191	(4,343)	(1,348)
	Taxes on earnings	1,383	(1,889)	1,141
	Deferred taxes on earnings	635	(4,440)	(4,370)
	Increase (Decrease) in Working Capital	$(17,147)	$21,613	$25,753

(See accompanying notes to consolidated financial statements)

Hartmarx Corporation
Notes to Consolidated Financial Statements

Summary of Accounting Policies

The consolidated financial statements include the accounts of the Company and all subsidiaries. In 1985, the Company increased its interest in Country Miss to 92% from 80%, with its senior management retaining the remaining minority interest. The Company purchased for cash the business of Briar, Inc., a manufacturer of high quality neckwear and related jewelry and Yorke Shirtmakers, a manufacturer of men's dress shirts in 1985 and 1986, respectively. The accompanying financial statements reflect the results of Briar and Yorke since their respective dates of acquisition; such results were not significant in relation to consolidated sales and earnings. Effective January 31, 1986, the Company sold its Chas. A. Stevens women's apparel retail subsidiary for approximately book value. Subsequent to year end, the Company purchased the business of H. Oritsky Inc., a manufacturer of natural shoulder suits and sportcoats; its results subsequent to December 31, 1986 will be included in the Company's 1987 financial statements. This acquisition, which will be accounted for under the purchase method of accounting, is not significant in relation to the consolidated results of operations or financial position.

The Company's 49% equity in Robert's S.A. de C.V., a publicly traded corporation in Mexico, is included in "Investments and Other Assets." The Mexican economy is currently considered to be highly inflationary and foreign currency adjustments are remeasured as if the U.S. dollar were the functional currency and included in earnings, in accordance with Statement of Financial Accounting Standards No. 52. Prior to September 1, 1982, the effects of translation from the peso functional currency to the U.S. dollar reporting currency were charged directly to a separate component of shareholders' equity.

Inventories are stated at the lower of cost or market. Approximately 26% and 29% of the Company's inventories, primarily work in process and finished goods, are valued using the last-in, first-out (LIFO) method at November 30, 1986 and 1985, respectively. The first-in, first-out (FIFO) method is used for substantially all raw materials and the remaining manufacturing and retail inventories.

Properties are stated at cost. Additions, major renewals and betterments are capitalized; maintenance and repairs which do not extend asset lives are charged against earnings. Profit or loss on disposition of assets is reflected in earnings and the related asset costs and accumulated depreciation are removed from the respective accounts.

Accelerated depreciation lives and methods are used for a significant portion of the properties. Depreciation is computed based on useful lives of 20 to 45 years for buildings, 5 to 20 years for building equipment and 3 to 15 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the terms of the respective leases.

Intangible assets are included in "Investments and Other Assets" at cost, less amortization which is provided on a straight-line basis over their economic lives, usually 10 years or less.

Deferred taxes on earnings are provided for timing differences between financial and taxable income. Investment tax credits are recognized as a reduction of the current provision for taxes on earnings in the year the related assets are placed in service.

The Company and its subsidiaries maintain benefit plans covering substantially all employees other than those covered by multi-employer plans. The Company adopted Statement of Financial Accounting Standards No. 87 – Employer's Accounting for Pensions in 1986. Accordingly, 1986 pension income for the principal plan was determined using the projected unit credit method. For 1985 and prior years, pension plan costs were determined using the entry age normal frozen initial liability method, which continues to be used for tax purposes. Pension expense under each multi-employer plan is based upon a percentage of the employer's union payroll established by industry-wide collective bargaining agreements. Pension expenses are funded as accrued.

Certain health and insurance programs are made available to non-union retired employees on substantially the same basis as with current employees of the Company, the costs of each recognized as incurred. Approximately 400 retired employees are currently participating; substantially all non-union employees could ultimately remain eligible upon attaining retirement age while employed by the Company. These retiree programs, after considering retiree contributions which are intended to offset the full cost, did not have a significant effect on earnings.

When stock options are exercised, common stock is credited for the par value of shares issued and capital surplus is credited with the consideration in excess of par. For stock appreciation rights, compensation expense is recognized on the aggregate difference between the market price of the Company's stock and the option price only when circumstances indicate that the right, and not the option, will be exercised.

The number of authorized common shares was increased from 25,000,000 to 75,000,000 and a three-for-two stock split became effective May 1, 1986. All per share information has been restated to reflect this stock split. Primary and fully diluted earnings per share in 1986 and fully diluted earnings per share in 1985 and 1984 reflect conversion of the subordinated debentures into common shares at $19.56 per share and elimination of the 8½% interest expense (after-tax) thereon. Primary earnings per share are computed based on the average number of common shares and common share equivalents outstanding, including any preferred shares. When dilutive, stock options are included as share equivalents using the treasury stock method. The number of shares used in computing primary earnings per share was 20,603,000 in 1986, 18,928,000 in 1985 and 18,614,000 in 1984. The number of shares used in computing fully diluted earnings per share was 20,603,000 in 1986, 21,207,000 in 1985 and 20,864,000 in 1984.

Inventories

At November 30, 1986 and 1985 inventories were as follows (000's omitted):

	1986	1985
Raw materials	$ 34,350	$ 32,028
Work in process	32,208	34,232
Finished goods	231,559	244,684
	$298,117	$310,944

The excess of current cost over LIFO costs for certain inventories was $23.3 million at November 30, 1986 and $21.1 million at November 30, 1985.

Hartmarx Corporation Notes to Consolidated Financial Statements

Notes Payable to Banks

The following summarizes information concerning notes payable to banks (000's omitted):

	1986	1985	1984
Outstanding at November 30	$53,000	$54,600	$42,000
Maximum month end balance during the year	86,200	75,500	74,500
Average amount outstanding during the year	62,700	44,800	31,400
Weighted daily average interest rate during the year	7.2%	8.4%	11.4%
Weighted average interest rate on borrowings at November 30	6.2%	8.3%	9.3%

The Company has revolving credit and term loan agreements totaling $45 million. The interest rate under these agreements is either the bank's prime rate, the Eurodollar rate plus ⅜%, fixed CD rate plus ½% or transaction loan rate, depending on the type of loan under the agreement. Additionally, the Company has agreed to pay certain other fees, including a commitment fee of ¼% of the daily unused amount of the aggregate principal amount of the credit plus amounts borrowed at transaction loan rates. The Company has the option, exercisable until May 1, 1987, to convert all or part of the revolving credit into term loan notes which would be repaid in quarterly installments over a two and one-half year period commencing on conversion. At November 30, 1986, $23 million of borrowings were outstanding under these agreements.

In addition to the revolving credit and term loan agreements, the Company has informal borrowing arrangements with a number of additional banks providing for lines of credit aggregating $206 million, $30 million of which was utilized as of November 30, 1986. Interest rates are at transaction loan rates (all below the prime rate) and there are neither significant compensating balance requirements nor commitment fees associated with these credit lines.

At November 30, 1986, of the aggregate $53 million of borrowings outstanding under all borrowing agreements, $20 million is classified as long term, representing the lowest amount of bank loans expected to be outstanding within the succeeding twelve months; the remaining $33 million was subsequently paid from cash generated from operations.

Long Term Debt

At November 30, 1986 and 1985, long term debt, less current maturities, comprised the following (000's omitted):

	1986	1985
Loans under revolving credit agreements	$20,000	$16,000
8½% sinking fund debentures (due 1996)	12,945	12,945
9¼% promissory notes	10,400	15,600
Industrial development bonds	25,964	24,306
Other debt, extending to 2003	1,551	2,349
Senior long term debt	$70,860	$71,200
8½% convertible subordinated debentures	$ —	$43,545

The $43.5 million of 8½% convertible subordinated debentures were called for redemption on December 27, 1985. The holders elected to exchange substantially all of the debentures for the Company's common stock at the conversion rate of $19.56 per share with only $.1 million redeemed for cash at $1,068 per $1,000 face value debenture plus accrued interest from July 15, 1985. Had this exchange been effective as of the beginning of fiscal 1985 or 1984, the fully diluted earnings per share amount would also have been reported as primary earnings per share.

The 8½% sinking fund debentures, originally $35 million, have been reduced by purchases which are being applied to sinking fund requirements of $1.75 million annually; $17.50 million was applied to 1978 through 1987, and $4.55 million is available for future use.

The 9¼% promissory notes, originally $25 million, are payable in annual installments of $2.6 million on each December 1. On December 1, 1986 the Company made an optional prepayment of $2.6 million and $4.9 million additional may be made without premium in amounts equal to and at the dates of the required payments; additional prepayments of the remainder may also be made at varying premiums.

The industrial development bonds, which mature on varying dates from 1987 through 2015, were issued by development authorities for the purchase or construction of various manufacturing or retail facilities. The bond proceeds were used for various properties which have a carrying value at November 30, 1986 of $22 million. Interest rates on the various borrowing agreements range from ⅞ of 1% to 8.5% (average of 5.5% at November 30, 1986).

Other long term debt includes installment notes and mortgages with interest rates ranging from 6% to 10% per annum. (Average interest rate of 8.9% in 1986 and 9.4% in 1985.)

The approximate principal requirements of non-bank debt during the next five years are as follows: $6.1 million in 1987; $3.5 million in 1988; $3.6 million in 1989; $4.4 million in 1990; $5.6 million in 1991.

Under the most restrictive provision of the Company's borrowing agreements, the Company may incur total funded debt up to approximately the amount of shareholders' equity. At November 30, 1986, senior funded debt was limited to approximately $287 million. Consolidated working capital was $291 million at November 30, 1986 compared with $192 million required to be maintained by the Company. Consolidated retained earnings of $99 million at November 30, 1986 plus 80% of earnings thereafter are available for the payment of future cash dividends.

Leases

The Company and its subsidiaries operate principally in leased facilities entirely under operating leases. All leased property considered as capital leases in the prior year was disposed of during 1986. Almost one-half of the leases contain renewal options ranging from 5 to 25 years. Over 90 percent of all leases provide for payment by the lessors of all or most of the applicable real estate taxes, maintenance and insurance costs; such executory costs are substantial in proportion to minimum rentals. Contingent rental payments are generally based on the sales volume of the rental unit.

At November 30, 1986, total minimum rentals are as follows (000's omitted):

Years	
1987	$ 36,186
1988	33,298
1989	29,513
1990	25,477
1991	22,435
Thereafter	78,404
Total minimum due	$225,313

Rental expense, including rentals under short term leases, comprised the following (000's omitted):

	1986	1985	1984
Minimum rentals	**$44,118**	$40,408	$35,097
Contingent rentals	**5,998**	7,887	7,069
Sublease income	**(1,997)**	(2,031)	(1,844)
Total rental expense	**$48,119**	$46,264	$40,322

Stock Option Plans

The Company has stock option plans under which officers and key employees may be granted options to purchase the Company's common stock at prices equal to the fair market value at date of grant. Options under all plans approved by the shareholders before 1980 are exercisable to the extent of 25% each year (cumulative) from the second through the fifth year, and expire five to ten years after date of grant. Options under the 1980, 1982 and 1985 Stock Option Plans may be exercisable as to all or any portion of the shares granted at any time during the period beginning one year after the date of grant, if the participant has been employed by the Company for at least five years. All options expire on April 7, 1990 for the 1980 Plan and ten years after date of grant under the 1982 and 1985 Plans.

The 1980, 1982 and 1985 Plans also provide for the discretionary grant of stock appreciation rights in conjunction with the option which allows the holder a combination of stock and cash equal to the gain in market price from the grant until its exercise; the cash payment is limited to one-half of the gain, and when options and rights are granted in tandem, the exercise of one cancels the other. The 1985 Plan provides for the discretionary grant of restricted stock awards which allows the holder to obtain full ownership rights subject to terms and conditions specified at the time each award is granted.

Options outstanding at November 30, 1986 included 389,276 granted in tandem with stock appreciation rights. Options for 436,234 shares were exercisable at November 30, 1986 at prices ranging from $4.50 to $22.00. At November 30, 1986, 453,922 shares were available for grant (662,813 shares at November 30, 1985), including 5,034 shares reserved for restricted stock awards and 1,156,598 shares were reserved for options granted or to be granted.

Information regarding options outstanding at November 30, 1986 and those which became exercisable and were exercised during 1986, 1985 and 1984 (after giving retroactive effect to the three-for-two stock split) is as follows:

Options Outstanding at November 30, 1986

Year of grant	1986	1985	1984	1983	1982	1981	1980	1978	Total
Shares	**219,338**	177,935	147,621	94,053	45,997	5,467	11,140	1,125	702,676
Option price (weighted average per share)	**$27.81**	$21.62	$18.63	$20.07	$10.87	$8.75	$4.50	$5.50	$21.62
Fair value at date of grant (000's omitted)	**$6,100**	$3,846	$2,751	$1,888	$ 500	$ 48	$ 50	$ 6	$15,189

		Option price		Fair value at date options became exercisable/were exercised	
Options which became exercisable:	Shares	Weighted average per share	Total (000's omitted)	Weighted average per share	Total (000's omitted)
1986	**218,577**	**$20.97**	**$4,583**	**$28.00**	**$6,120**
1985	233,962	$17.13	$4,009	$22.09	$5,167
1984	207,374	$17.41	$3,611	$18.91	$3,922
Options exercised:					
1986	**211,200**	**$15.82**	**$3,342**	**$28.53**	**$6,025**
1985	212,106	$12.64	$2,682	$22.05	$4,678
1984	96,093	$ 8.21	$ 789	$19.17	$1,842

A summary of the plans for the three years ended November 30, 1986 is as follows:

	Number of Shares	Appreciation Rights	Option Price
Under option, November 30, 1983	586,869	260,859	$ 4 to $22
Granted	246,150	128,812	$18 to $19
Exercised	(96,093)	(41,847)	$ 4 to $15
Expired or terminated	(9,150)	(2,700)	$ 4 to $20
Under option, November 30, 1984	727,776	345,124	$ 4 to $22
Granted	205,875	127,650	$20 to $22
Exercised	(212,106)	(25,659)	$ 4 to $20
Expired or terminated	(14,628)	(70,020)	$ 9 to $22
Under option, November 30, 1985	706,917	377,095	$ 4 to $22
Granted	223,538	107,475	$25 to $29
Exercised	(211,200)	(93,494)	$ 4 to $22
Expired or terminated	(16,579)	(1,800)	$ 7 to $28
Under option, November 30, 1986	702,676	389,276	$ 4 to $29

Stock Purchase Rights

A dividend of one Right per common share was distributed to stockholders of record January 31, 1986. Each common share, adjusted for the May, 1986 3-for-2 stock split, now represents .6667 Right. Each Right, expiring January 31, 1996, continues to represent a right to buy from the Company 1/100th of a share of Series B Junior Participating Preferred Stock, $1.00 par value, at a price of $120. This dividend distribution of the Rights was not taxable to the Company or its stockholders. Separate certificates for Rights will not be distributed, nor will the Rights be exercisable, unless a person or group acquires 20 percent or more, or announces an offer that could result in acquiring 30 percent or more, of the Company's common shares. Following such a distribution, if the Company merges (including a reverse stock split) with a 20 percent or more stockholder, or if such a stockholder acquires 50 percent or more of the Company's shares or engages in certain "self-dealing" transactions, each Right holder, except the 20 percent or more stockholder, has the right to receive, upon exercise, common shares (or, under certain circumstances, cash, property or other Company securities) valued at *twice* the then applicable exercise price of the Right. Similarly, the Rights will be exercisable for the other party's stock (or assets) having a value of *twice* the exercise price if the Company engages in a merger or other business combination where it does not survive or survives with a change or exchange of its common shares or if 50 percent or more of its assets or earning power is sold or transferred.

Each 1/100th share of Preferred Stock purchased for $120 will pay a dividend , adjusted for the May, 1986 3-for-2 stock split, equal to 1½ times that paid on each common share, or if more, 7½ cents quarterly. However, if the Right is used to buy the Preferred Stock, it cannot be used to purchase the common shares or other assets valued at *twice* the $120 exercise price.

Generally, Rights may be redeemed for five cents each if all Rights are redeemed by the tenth day following public announcement that a 20% or greater position has been acquired in Hartmarx stock. Until exercise, a Right holder, as such, has no rights as a stockholder of the Company.

Retirement Benefits

Pension Plans

The Company participates with other companies in the apparel industry in making collectively-bargained contributions to pension funds covering most of its union employees. The contribution rate of applicable payroll is based on the actuarially recommended amount necessary to fund the costs of the benefits. Pension costs relating to multi-employer plans were approximately $11 million in 1986, $10 million in 1985 and $11 million in 1984.

The Multi-employer Pension Plan Amendment Act of 1980 amended ERISA to establish funding requirements and obligations for employers participating in multi-employer plans, principally related to employer withdrawal from or termination of such plans, whereupon separate actuarial calculations of the Company's position with respect to multi-employer plans would be determined.

The principal Company sponsored pension plan is a non-contributory defined benefit pension plan covering substantially all eligible, non-union employees. Certain of the Company's subsidiaries have other defined benefit and contribution plans, which in the aggregate are not significant.

Under the principal plan, retirement benefits are a function of years of service and average compensation levels during the highest five consecutive salary years occurring during the last ten years before retirement.

It is the Company's policy to fund the plans on a current basis to the extent deductible under existing tax laws and regulations. Such contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Effective December 1, 1985, the Company adopted the provisions of Statement of Financial Accounting Standards No. 87 — Employer's Accounting for Pensions. Net earnings after-tax were increased by $1.6 million or $.08 per share principally due to pension income recognized from the amortization of the initial excess of plan assets ("transition asset") over the projected benefit obligation over a ten year period, corresponding to the average years of expected future service of plan participants.

Pension income for 1986 for the principal plan included the following components (000's omitted):

Service cost — benefits earned during the period	$ (3,480)
Interest cost on projected benefit obligation	(4,511)
Return on plan assets	7,539
Net amortization and deferral	3,453
Net periodic pension income	$ 3,001

The weighted average discount rate and rate of increase in future compensation levels used in determining the projected benefit obligation were 8¾% and 6%, respectively. The expected long-term rate of return on the Company sponsored plan assets was 8¾%.

In accordance with the provisions of Statement No. 87, pension expense for prior periods has not been restated. A pension expense provision was not required in 1985 while pension expense for 1984 was $.4 million, as amortization of actuarial gains substantially offset normal costs.

In 1985, the assumed rate of return was increased to 8¾% from 8%; effective in 1984, salaries were assumed to increase to 6% from 5.5% and assumed rate of return increased to 8% from 6.5%. The effect of the changes in 1985 and 1984 was not significant in either year.

Plan assets consist primarily of publicly traded common stocks and corporate debt instruments, and units of certain trust funds administered by the Trustee of the plan. At November 30, 1986, the plan assets included 212,612 shares of the Company's stock with a market value of $6.1 million.

The following sets forth the funded status of the principal plan at November 30, 1986 and 1985 (000's omitted):

	November 30, 1986	1985
Actuarial present value of benefit obligations:		
Vested benefits	$(41,172)	$(35,887)
Non-vested benefits	(2,049)	(1,786)
Accumulated benefit obligation	(43,221)	(37,673)
Effect of projected future compensation levels	(11,574)	(10,609)
Projected benefit obligation	(54,795)	(48,282)
Plan assets, at fair value	95,331	83,176
Plan assets in excess of projected benefit obligation	40,536	34,894
Unrecognized net (gain) or loss since initial application of Statement No. 87	(5,334)	–
Unrecognized net asset existing at the date of initial application of Statement No. 87	(31,441)	(34,894)
Prepaid pension cost	$ 3,761	$ –

The Company sold its Chas A. Stevens subsidiary during 1986 and the accrual of further pension benefits ceased as of the date of sale. This event qualifies as a curtailment under the provisions of Statement of Financial Accounting Standards No. 88. The projected benefit obligation exceeded the accumulated benefit obligation for Stevens' employees as of the date of sale and, accordingly, an additional $760,000 of pre-tax pension gain is reflected in the accompanying financial statements.

Savings-Investment Plan

The Company offers an employee savings investment plan under which eligible participants can invest from 1% to 16% of earnings among several investment alternatives, including a company stock fund. An employer contribution equal to one-fourth of the first 6% of the employees' contribution is invested in common stock of the Company. The Company's annual contributions, net of forfeiture credits, were $1.1 million in 1986, $1.1 million in 1985 and $.7 million in 1984. Participation in the savings investment plan is required to earn retirement benefits under the Company's principal plan. At November 30, 1986, the assets of the fund had a market value of approximately $47 million, of which about $34 million was invested in 1,195,434 shares of the Company's common stock.

Taxes on Earnings

The provision for taxes on earnings is summarized as follows (000's omitted):

	1986	1985	1984
Federal	$17,666	$28,793	$28,966
State and local	3,484	5,357	5,224
Total current	21,150	34,150	34,190
Federal	1,337	3,745	3,702
State and local	263	695	668
Total deferred	1,600	4,440	4,370
Total taxes on earnings	$22,750	$38,590	$38,560

The deferred tax provision for 1986 includes $3.0 million attributable to accelerated depreciation, offset by $2.0 million reduction of deferred gross margin on installment sales.

The deferred provision for 1985 is primarily comprised of $2.8 million related to accelerated depreciation, $2.1 million to deferred gross margin on installment sales and $1.2 million to the purchase in fiscal 1982 and 1983 of tax benefits through tax lease transactions, partially offset by $1.7 million related to other expenses not currently deductible for income tax purposes. The deferred provision for 1984 includes $2.0 million related to accelerated depreciation, $.9 million to deferred gross margin on installment sales, and $1.8 million to tax benefits through tax lease transactions.

The difference between taxes on earnings reflected in the accompanying statement of earnings and the amount computed by applying the federal statutory tax rate to pre-tax earnings is summarized as follows:

	Percent of Pre-Tax Earnings 1986	1985	1984
Taxes computed at statutory rate	46.0%	46.0%	46.0%
State and local taxes on earnings, net of federal tax benefit	4.3	4.0	4.0
Investment tax credit ($.5 million in 1986, $2.30 million in 1985 and $1.27 million in 1984)	(1.0)	(2.9)	(1.6)
Equity in earnings of non-consolidated affiliate	(.2)	(.1)	(.5)
Gains on property sales taxed at capital gains rates	(2.1)	–	–
Other – net	.9	.5	.1
Effective tax rate	47.9%	47.5%	48.0%

The retroactive provisions of the Tax Reform Act of 1986 (Act), enacted on October 22, 1986, impacting the computation of 1986 income tax expense are reflected in the above table; available tax credits are lower as a result of the Act, although the impact on the fourth quarter of 1986 was not significant.

Operating Segment Information

The Company is engaged in the business of manufacturing and selling apparel. Approximately 19% of the manufactured products are sold to affiliated companies. The remaining 81% sold to other retailers for resale to consumers comprised about 85% for the Men's Apparel Group and almost 60% for Country Miss. No one customer accounts for more than 2% of consolidated sales. Information on the Company's manufacturing and retailing operations for the years ended November 30, 1986, 1985 and 1984 is summarized as follows:

	Manufacturing			Retailing			Adjustments			Consolidated		
	1986	1985	1984	1986	1985	1984	1986	1985	1984	1986	1985	1984
Sales to unaffiliated customers	$487.9	$475.5	$458.7	$575.1	$634.0	$612.1	$	$	$	$1,063.0	$1,109.5	$1,070.8
Earnings before taxes	73.4	77.2	73.1	(2.8)	28.0	35.3	(23.1)	(23.9)	(28.1)	47.5	81.3	80.3
Gross assets at year end	293.9	288.9	265.1	345.4	397.5	355.8	(17.8)	(17.1)	(7.4)	621.5	669.3	613.5
Depreciation and amortization	9.3	7.9	6.8	11.1	11.4	10.1	.6	.3	.2	21.0	19.6	17.1
Property additions—net	12.0	14.9	17.2	13.5	17.0	15.2	1.6	1.3	.2	27.1	33.2	32.6

Adjustments of gross assets are for corporate cash, net properties, investments and other assets, less intercompany profit in inventory and intercompany receivables.

Adjustments of depreciation and amortization and net property additions are for corporate properties.

Men's Apparel Group shipments of $82 million in 1986, $92 million in 1985 and $85 million in 1984 to Hartmarx Specialty Stores (at the same prices as similar items are sold to unaffiliated retailers) are excluded from sales of the manufacturing segment, although profit on these products is included in manufacturing earnings. For Country Miss, comparable sales amounts are approximately $28 million in 1986, $25 million in 1985 and $21 million in 1984.

Adjustments from earnings before taxes are:

	1986	1985	1984
Interest expense (net of interest income)	$(8.1)	$(10.4)	$(10.7)
General corporate expenses and intercompany profit elimination	(15.2)	(13.7)	(18.2)
Equity in earnings of non-consolidated affiliate	.2	.2	.8
	$(23.1)	$(23.9)	$(28.1)

Corporate and Subsidiary Officers

Office of the Chairman

Elbert O. Hand
President and Chief Operating Officer, Hartmarx Corp.
President and Chief Executive Officer Men's Apparel Group

John R. Meinert
Chairman and Chief Administrative Officer Hartmarx Corp.

Harvey A. Weinberg
Vice Chairman and Chief Executive Officer, Hartmarx Corp.
Chairman and Chief Executive Officer Hartmarx Specialty Stores, Inc.

Corporate Officers

Jerome Dorf
Senior Vice President and Chief Financial Officer

Frank A. Brenner
Vice President, Marketing Services

James E. Condon
Vice President and Treasurer

Guy W. Gunzberg
Vice President, Information Systems

Ralph Kaufmann
Vice President, Licensing

Glenn R. Morgan
Vice President and Controller

Sherman D. Rosen
Vice President, Human Resources

Carey M. Stein
Vice President, Secretary and General Counsel

Subsidiary Officers

Men's Apparel Group

Hart Schaffner & Marx Clothes

Kenneth A. Hoffman*
President and Chief Executive Officer

Hickey-Freeman

Walter B. D. Hickey, Jr.
Chairman and Chief Policy Officer

Gasper A. Tirone*
President and Chief Executive Officer

Jaymar-Ruby

Burton B. Ruby
Chairman

Geoffrey Bloom*
President and Chief Executive Officer

Intercontinental Branded Apparel

Homi Patel*
President and Chief Executive Officer

Hartmarx Special Markets Group

Robert C. Rich*
President and Chief Executive Officer

Hartmarx Furnishings Group

Robert J. Calvin
President

H. Oritsky

Herbert Oritsky
President and Chief Executive Officer

Retailing

Hartmarx Specialty Stores, Inc.

Harvey A. Weinberg
Chairman and Chief Executive Officer

Henry C. Schwartz
President

Enzo Belli
Executive Vice President

Alvis Reeves
Executive Vice President

Kuppenheimer

Sam Forman
Chairman

David R. McMahon*
President and Chief Executive Officer

Women's Apparel

Country Miss

Stanley H. Wax*
President and Chief Executive Officer

Stephen L. Perlow
Executive Vice President

International

Ralph Kaufmann
Vice President, Licensing

**Members of Operating Board which also includes all Corporate Officers.*

Board of Directors

Director Committees

Ⓐ Audit
Ⓒ Compensation and Stock Option
Ⓔ Executive
Ⓜ Management Operations
Ⓝ Nominating
Ⓢ Strategy

A. Robert Abboud ⒸⒺⓃⓈ
President
A. Robert Abboud and Company

Letitia Baldrige ⒺⓃ
President
Letitia Baldrige Enterprises, Inc.

James E. Devitt ⒶⒺⓃ
Retired Chairman and Chief Executive Officer
The Mutual Life Insurance Company of New York

Raymond F. Farley ⒶⒸⒺⓃ
President and Chief Operating Officer
S.C. Johnson & Son, Inc.

Jerome S. Gore ⒺⓈ
Chairman Emeritus
Chairman, Executive Committee
Hartmarx Corporation

Elbert O. Hand ⓂⓈ
President and Chief Operating Officer
Hartmarx Corporation

Donald P. Jacobs ⒶⒸⒺⓃⓈ
Dean, J. L. Kellogg Graduate School of Management
Northwestern University

Charles Marshall ⒸⒺⓃ
Vice Chairman
American Telephone and Telegraph Company

John R. Meinert ⓂⓈ
Chairman and Chief Administrative Officer
Hartmarx Corporation

Burton B. Ruby Ⓔ
Chairman
Jaymar-Ruby, Inc.

Sam F. Segnar ⒶⒺⓃ
Chairman
Vista Chemical Company

Harvey A. Weinberg ⓂⓈ
Vice Chairman and Chief Executive Officer
Hartmarx Corporation

Hartmarx Corporation
101 North Wacker Drive
Chicago, Illinois 60606
(312) 372-6300

Transfer Agent and Registrar
The First National Bank of Chicago
Chicago, Illinois 60670

Form 10-K
Hartmarx Corporation will provide to any shareholder, without charge, a copy of its Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (but without exhibits). Requests should be in writing to: Hartmarx Corporation, attention: Mrs. Kay C. Nalbach, Assistant Secretary, 101 North Wacker Drive, Chicago, Illinois 60606

HARTMARX

Our goal is

to be a Premier company.

Premiership means

exceptional performance

in serving all the groups

to whom we are responsible:

consumers, employees,

retailers, shareholders

and society.

On the cover:
1914 Hart Schaffner & Marx retail poster illustration.
1987 Weathervane separates and Austin Reed of Regent Street suit.

1887 HARTMARX® CENTENNIAL 1987